

STATEMENT OF
HONORABLE DONALD J. DEVINE
DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

BEFORE THE

SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE, AND GENERAL SERVICES
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ON

CIVIL SERVICE RETIREMENT COVERAGE FOR FEDERAL EMPLOYEES
WHO WILL BECOME COVERED BY SOCIAL SECURITY AFTER DECEMBER 31, 1983

SEPTEMBER 14, 1983

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I APPRECIATE THE OPPORTUNITY TO APPEAR THIS MORNING TO DISCUSS THE PROBLEM OF DOUBLE COVERAGE OF NEW FEDERAL EMPLOYEES UNDER BOTH THE SOCIAL SECURITY AND CIVIL SERVICE RETIREMENT SYSTEMS. I AM ACCOMPANIED BY JAMES MORRISON, OUR ASSOCIATE DIRECTOR FOR COMPENSATION, AND JEAN BARBER, ASSISTANT DIRECTOR FOR FINANCIAL CONTROL AND MANAGEMENT.

FEDERAL EMPLOYEES FIRST HIRED AFTER DECEMBER 31, 1983, AND CERTAIN CATEGORIES OF EMPLOYEES HIRED BY THE GOVERNMENT BEFORE THAT DATE, WILL BE COVERED UNDER SOCIAL SECURITY AS A RESULT OF THE 1983 SOCIAL SECURITY AMENDMENTS. WHEN THOSE AMENDMENTS WERE ENACTED, IT WAS RECOGNIZED BY ALL INVOLVED THAT THE CONGRESS WOULD HAVE TO ESTABLISH A NEW RETIREMENT SYSTEM FOR THOSE EMPLOYEES IN ORDER TO SUPPLEMENT THE SOCIAL SECURITY BENEFITS THAT THEY WILL BE EARNING. LEGISLATION WILL NOT BE ENACTED BY JANUARY TO ESTABLISH A NEW SUPPLEMENTAL RETIREMENT PLAN. THEREFORE, THESE EMPLOYEES WILL END UP BEING COVERED UNDER AND PAYING FOR BOTH THE VERY EXPENSIVE EXISTING CIVIL SERVICE

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RETIREMENT SYSTEM AND SOCIAL SECURITY. AS A RESULT, THEY WILL HAVE TO PAY A TOTAL OF 14 PERCENT OF THEIR SALARIES FOR EXPENSIVE, INAPPROPRIATE AND DUAL RETIREMENT COVERAGE.

IT IS IMPORTANT THAT THE PRESENT LAW BE AMENDED TO CORRECT POTENTIAL DUAL RETIREMENT DEDUCTIONS AND COVERAGE. IT WOULD BE INAPPROPRIATE TO PROVIDE FULL, PRESENT CIVIL SERVICE RETIREMENT COVERAGE--EVEN TEMPORARILY--TO FEDERAL EMPLOYEES WHO ARE ALSO COVERED UNDER SOCIAL SECURITY. THIS IS PARTICULARLY TRUE IF WE REMIND OURSELVES THAT THE CIVIL SERVICE RETIREMENT SYSTEM IS AN EXTRAORDINARILY GENEROUS SYSTEM. THE EXCESSIVE RETIREMENT COVERAGE THAT WOULD BE PROVIDED BY CONCURRENTLY PLACING EMPLOYEES UNDER SOCIAL SECURITY AND FULL CIVIL SERVICE RETIREMENT CAN ONLY CONFUSE AND DEMORALIZE THOSE EMPLOYEES BY CREATING FALSE EXPECTATIONS REGARDING THEIR FUTURE BENEFITS.

THE COMPTROLLER GENERAL HAS IDENTIFIED FOUR POSSIBLE APPROACHES TO THE DOUBLE COVERAGE PROBLEM. ONE OPTION IS THAT FEDERAL EMPLOYEES COVERED BY BOTH SOCIAL SECURITY AND CIVIL SERVICE RETIREMENT MIGHT BE GIVEN A TEMPORARY TAX CREDIT FOR THE AMOUNT OF THEIR CIVIL SERVICE RETIREMENT CONTRIBUTIONS. A SECOND OPTION WOULD BE TO COVER EMPLOYEES UNDER CIVIL SERVICE RETIREMENT, BUT RELIEVE THEM OF THE OBLIGATION TO FINANCIALLY CONTRIBUTE TO THE CSRS. THIRD, PARTICIPATION IN THE CIVIL SERVICE RETIREMENT SYSTEM MIGHT BE MADE VOLUNTARY UNTIL A NEW SUPPLEMENTAL RETIREMENT PLAN IS ENACTED. FINALLY, EMPLOYEES COULD BE COVERED SOLELY UNDER SOCIAL SECURITY WHILE A NEW PLAN IS BEING DELIBERATED.

THE ADMINISTRATION STRONGLY OPPOSES GRANTING FEDERAL EMPLOYEES A SPECIAL TAX CREDIT FOR THE AMOUNT OF THEIR RETIREMENT CONTRIBUTIONS. SUCH A TAX CREDIT HAS NO PARALLEL IN THE TREATMENT OF PRIVATE SECTOR EMPLOYEES'

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RETIREMENT CONTRIBUTIONS. AS A MATTER OF EQUITY, WE OBJECT TO PREFERENTIAL TAX TREATMENT FOR FEDERAL EMPLOYEES. ALSO, AS THE COMPTROLLER GENERAL POINTS OUT, THIS OPTION WOULD UNFAIRLY ENABLE EMPLOYEES TO RECEIVE BOTH A TAX CREDIT FOR THEIR CIVIL SERVICE RETIREMENT CONTRIBUTIONS AND A REFUND OF THOSE CONTRIBUTIONS, SHOULD THEY LEAVE THE GOVERNMENT. FINALLY, THIS ALTERNATIVE WOULD PROVIDE IMMEDIATE RELIEF FROM DOUBLE COVERAGE ONLY IF EMPLOYEES ADJUSTED THEIR SALARY WITHHOLDINGS FOR INCOME TAX.

WE ALSO FIND THE SECOND OPTION OBJECTIONABLE. THIS REMEDY WOULD PROVIDE CIVIL SERVICE RETIREMENT COVERAGE, BUT WITH NO EMPLOYEE CONTRIBUTION, AND WOULD REQUIRE THE INDIVIDUAL'S CIVIL SERVICE RETIREMENT BENEFITS TO BE OFFSET BY HIS OR HER ENTIRE SOCIAL SECURITY BENEFIT. SINCE THE SUPPLEMENTAL RETIREMENT SYSTEM THAT MAY EVENTUALLY BE ENACTED IS LIKELY TO DIFFER SUBSTANTIALLY FROM THE CURRENT CIVIL SERVICE RETIREMENT SYSTEM, TEMPORARY CIVIL SERVICE RETIREMENT COVERAGE WOULD BE OF QUESTIONABLE VALUE TO NEW EMPLOYEES.

THE THIRD OPTION THE COMPTROLLER GENERAL MENTIONED---VOLUNTARY PARTICIPATION IN THE CIVIL SERVICE RETIREMENT SYSTEM---WOULD BE ATTRACTIVE ONLY TO EMPLOYEES WITH HIGH INCOMES. CIVIL SERVICE RETIREMENT COVERAGE WOULD BE OF ONLY LIMITED VALUE DURING THIS TRANSITION PERIOD. DOUBLE CONTRIBUTIONS WOULD DISCOURAGE PARTICIPATION BY LOWER-INCOME EMPLOYEES, WHO ARE LIKELY TO BE RELATIVELY YOUNG AND LESS CONCERNED ABOUT PREPARING FOR THEIR FINANCIAL SECURITY IN RETIREMENT.

THIS BRINGS US TO THE LAST OF THE FOUR POSSIBILITIES DISCUSSED BY THE COMPTROLLER GENERAL: COVERING POST-1983 EMPLOYEES SOLELY UNDER SOCIAL SECURITY

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UNTIL THE NEW SUPPLEMENTAL PLAN IS IN PLACE. EXCLUDING THE AFFECTED EMPLOYEES FROM CIVIL SERVICE RETIREMENT COVERAGE AND COVERING THEM UNDER SOCIAL SECURITY ALONE WOULD NOT SIGNIFICANTLY ENDANGER THEIR FINANCIAL SECURITY IN THE INTERIM PERIOD BEFORE ESTABLISHMENT OF THE NEW SUPPLEMENTAL RETIREMENT PLAN. THIS IS TRUE BECAUSE, EVEN IF THEY WERE COVERED UNDER THE CIVIL SERVICE RETIREMENT SYSTEM, FORMER EMPLOYEES REHIRED BY THE GOVERNMENT AFTER A BREAK IN SERVICE WOULD HAVE TO WORK FOR AT LEAST A YEAR BEFORE THEY WOULD BE ENTITLED TO A NORMAL ANNUITY BASED ON THEIR PREVIOUS SERVICE. NEW EMPLOYEES WOULD HAVE TO WORK FOR AT LEAST 5 YEARS BEFORE GAINING TITLE TO AN ANNUITY. EVEN NEW EMPLOYEES WOULD HAVE TO WORK AT LEAST 18 MONTHS BEFORE THEIR SPOUSES WOULD BE ENTITLED TO SURVIVOR ANNUITIES BASED ON THE EMPLOYEES' DEATH IN SERVICE. IN ANY EVENT, WHEN A SUPPLEMENTAL PLAN IS CREATED, WE WOULD HOPE AND RECOMMEND THAT EMPLOYEES BE ALLOWED TO PURCHASE RETROACTIVE CREDIT FOR THE PERIOD PRECEDING ENACTMENT OF THE SUPPLEMENTAL PLAN.

WE RECOGNIZE THAT THIS OPTION MAY CREATE SOME CONCERN THAT THE LOSS OF INCOME TO THE CIVIL SERVICE RETIREMENT FUND FROM NEW EMPLOYEES WOULD CREATE FINANCIAL PROBLEMS IN THE FUTURE FOR THE FUND. FRANKLY WE THINK THIS CONCERN IS MISDIRECTED, SINCE ANY FINANCIAL PROBLEM FOR THE FUND WOULD ARISE ONLY MANY YEARS IN THE FUTURE. NEVERTHELESS, WE WOULD BE WILLING TO CONSIDER A REQUIREMENT THAT THE GOVERNMENT CONTINUE TO MAKE CONTRIBUTIONS TO THE CIVIL SERVICE RETIREMENT FUND DURING THE TRANSITION PERIOD IN THE SAME AMOUNT IT WOULD HAVE MADE HAD THE NEW EMPLOYEES BEEN COVERED.

CONCERNS HAVE ALSO BEEN RAISED THAT EMPLOYEES MIGHT BE DENIED CERTAIN BENEFITS, SUCH AS DISABILITY ANNUITIES AND SURVIVOR ANNUITIES FOR THEMSELVES OR THEIR DEPENDENTS, WHICH THEY MIGHT OTHERWISE BE ELIGIBLE FOR DURING THE PERIOD WHILE

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THE NEW PLAN IS BEING DEVELOPED. HERE AGAIN, WE WOULD BE WILLING TO CONSIDER SOME ARRANGEMENT TO ENSURE PROTECTION FOR THESE INDIVIDUALS.

IN SUMMARY, WE BELIEVE THAT EXCLUSION FROM CIVIL SERVICE RETIREMENT COVERAGE OF FEDERAL EMPLOYEES WHO WILL BE COVERED BY SOCIAL SECURITY IS THE MOST APPROPRIATE SOLUTION TO THE DOUBLE COVERAGE PROBLEM. WE ARE HOPEFUL THAT A NEW SUPPLEMENTAL RETIREMENT SYSTEM WILL BE ENACTED SOON FOR THOSE FEDERAL EMPLOYEES WHO WILL BE COVERED BY SOCIAL SECURITY STARTING IN 1984. THE ADMINISTRATION HOPES THAT THIS NEW SUPPLEMENTAL RETIREMENT PLAN BE IN PLACE BY 1985. WE ARE EAGER TO ASSIST THE MEMBERS AND COMMITTEES OF CONGRESS WITH TECHNICAL SUPPORT FOR LEGISLATION TO REFORM THIS IMPORTANT ITEM OF PUBLIC BUSINESS.

THANK YOU FOR THE OPPORTUNITY TO DISCUSS THIS PROBLEM. I WILL BE HAPPY TO ANSWER YOUR QUESTIONS.